

REMARKS OF THE HONORABLE HENRY A. WAXMAN

CHAIRMAN, SUBCOMMITTEE ON HEALTH AND THE ENVIRONMENT

BEFORE THE

HOUSE COMMITTEE ON THE BUDGET

FEBRUARY 25, 1982

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, I'D LIKE TO THANK YOU FOR THE OPPORTUNITY TO TESTIFY THIS AFTERNOON ON THE ADMINISTRATION'S PROPOSED HEALTH BUDGET CUTS.

YOU HAVE AN EXTREMELY DIFFICULT TASK BEFORE YOU: SHAPING THE FY 1983 BUDGET. UNFORTUNATELY, THE ADMINISTRATION'S BUDGET PROPOSALS WILL NOT MAKE THINGS ANY EASIER. THE HEALTH CUTS THE PRESIDENT PROPOSES ARE SO SENSELESS, SO GRATUITOUSLY HARMFUL, AS TO REMOVE THEMSELVES FROM THE ARENA OF RATIONAL POLITICAL DEBATE.

LET ME SUMMARIZE THESE CUTS FOR YOU BRIEFLY. THE ADMINISTRATION WOULD CUT MEDICAID BY \$2.1 BILLION, MEDICARE BY \$2.5 BILLION, AND OTHER HEALTH SERVICE PROGRAMS BY NEARLY \$600 MILLION IN FY 1983. THESE MASSIVE CUTS -- TOTALLING \$5.2 BILLION -- ARE OVER AND ABOVE ALL THE CUTS MADE IN THESE PROGRAMS LAST YEAR.

JUST SIX MONTHS AGO, THE 1981 BUDGET RECONCILIATION ACT BECAME LAW. JUST TWO MONTHS AGO THE CURRENT CONTINUING RESOLUTION FOR HEALTH AND HUMAN SERVICES APPROPRIATIONS TOOK EFFECT. THESE TWO BILLS CUT HEALTH PROGRAMS BY \$2.8 BILLION IN FY 1982. LAST YEAR'S RECONCILIATION ACT ALSO CUT HEALTH PROGRAMS ANOTHER \$2.8 BILLION IN FY 1983. BEFORE THE FULL IMPACT OF THESE CUTS HAS BEEN FELT, MUCH LESS EXAMINED, THE ADMINISTRATION IS RECKLESSLY ASKING FOR ADDITIONAL CUTS OF EVEN GREATER AMOUNTS.

THE PRESIDENT'S PROPOSALS ARE COMPLETELY UNACCEPTABLE. THE ONLY PRACTICAL WAY FOR MY SUBCOMMITTEE TO LEGISLATE CHANGES IN EXISTING

HEALTH PROGRAMS SUFFICIENT TO ACHIEVE THE ADDITIONAL \$5.2 BILLION IN CUTS THAT THE ADMINISTRATION HAS REQUESTED FOR FY 1983 IS TO SHIFT COSTS PRIMARILY ONTO STATES AND LOCALITIES, AND SECONDARILY ONTO BENEFICIARIES AND PROVIDERS. THE CONSEQUENCES FOR THE NATION'S HEALTH WOULD BE DISASTROUS.

WE ALREADY HAVE SOME INFORMATION ON THE IMPACT OF LAST YEAR'S CUTS, AND IT IS SOBERING. LAST NOVEMBER, I TRAVELLED TO MEMPHIS, TENNESSEE WITH MEMBERS OF THE WAYS AND MEANS COMMITTEE, INCLUDING MR. ANTHONY OF THIS COMMITTEE, TO LEARN ABOUT THE IMPACT OF THE PRESIDENT'S BUDGET ON THE DELTA REGION.

A MISSISSIPPI MATERNAL AND CHILD HEALTH OFFICIAL TOLD US THAT HER HEALTH CLINICS, WHICH HANDLE NEARLY HALF OF THE LIVE BIRTHS IN THE STATE, WOULD BE CRIPPLED BY THE 24% SLASH IN TITLE V MATERNAL AND CHILD HEALTH FUNDING. AND THE PRESIDENT'S FY 83 BUDGET PROPOSES TO CUT THE PROGRAM BY ANOTHER 22%.

THE DIRECTOR OF THE NEWBORN INTENSIVE CARE UNIT AT THE CITY OF MEMPHIS HOSPITAL, WHICH HANDLES 1200 EXTREMELY SICK BABIES EACH YEAR, TOLD US THAT THE MEDICAID AND AFDC CUTS WOULD MEAN SUCH SERIOUS REVENUE LOSSES TO HIS FACILITY THAT QUALITY LIFE-GIVING SERVICES MIGHT NO LONGER BE AVAILABLE TO ALL HIGH-RISK NEWBORNS. IF THIS OCCURS, WE WILL HAVE FORCED THIS FACILITY OF LAST RESORT TO RATION NOT JUST HEALTH CARE, BUT LIFE ITSELF. THE PRESIDENT'S PROPOSED FY 1983 CUTS ARE CERTAIN TO MAKE THIS SITUATION WORSE.

JUST LAST MONTH, MY SUBCOMMITTEE HELD A HEARING ON THE IMPACT OF THE 10% REDUCTION IN FUNDING FOR THE CHILDHOOD IMMUNIZATION PROGRAM IN FY 1982. WE LEARNED THAT, AS A RESULT, TWO MILLION FEWER CHILDREN WILL BE IMMUNIZED THIS YEAR THAN LAST AGAINST SUCH PREVENTABLE DISEASES AS POLIO, MEASLES, AND TETANUS. THERE IS SCARCELY A MORE VIVID ILLUSTRATION OF HOW SHORT-SIGHTED THESE BUDGET CUTS ARE.

ALTHOUGH THEY ARE ESPECIALLY DEFENSELESS POLITICALLY, CHILDREN ARE NOT THE ONLY GROUP THAT HAS BEEN VICTIMIZED BY THE ADMINISTRATION'S BUDGET SLASHING. WORKING MOTHERS WITH LOW PAYING JOBS THAT DO NOT PROVIDE HEALTH CARE COVERAGE ARE FORCED TO GO ON WELFARE IN ORDER TO GET MEDICAID IF THEIR CHILDREN GET SICK. THIS POLICY COMES FROM AN ADMINISTRATION THAT WANTS TO GET THE POOR OFF THE WELFARE ROLLS AND ONTO THE WORKING ROLLS.

THE ELDERLY POOR ARE FINDING THAT IN RESPONSE TO MEDICAID CUTS AT THE FEDERAL LEVEL, THE STATES HAVE BEEN CUTTING BACK ON SUCH NON-MANDATED SERVICES AS PRESCRIPTION DRUGS AND DENTAL CARE. FOR A LOW-INCOME ELDERLY PERSON, THESE CUTBACKS CAN BE DEVASTATING.

ARE THE STATES AND LOCALITIES IN ANY POSITION TO ABSORB MORE FEDERAL COST-SHIFTS OF THE MAGNITUDE THAT THE ADMINISTRATION IS PROPOSING? ALL THE EVIDENCE IS THAT THEY ARE NOT. CERTAINLY THE NATION'S GOVERNORS CONFERENCE DOES NOT SEEM TO FEEL THAT THE STATES CAN HANDLE MORE. AT THEIR MEETING EARLIER THIS WEEK, THEY STRONGLY OPPOSED ANY FURTHER FEDERAL COST-SHIFTING UNTIL THE ECONOMY IMPROVES AND THEY HAVE HAD AN OPPORTUNITY TO ADJUST TO THE CUTS WE ENACTED LAST

AUGUST AND DECEMBER.

IT MIGHT BE USEFUL TO LOOK AT SOME OF THE SPECIFIC ADMINISTRATION PROPOSALS TO SEE JUST WHAT THE MAGNITUDE OF THE COST SHIFTING WILL BE. THE ADMINISTRATION PROPOSES TO SAVE \$600 MILLION IN FY 1983 BY REDUCING THE CURRENT FEDERAL MEDICAID MATCHING RATE FOR ALL SO-CALLED "OPTIONAL" SERVICES AND "OPTIONAL" ELIGIBILITY GROUPS BY THREE PERCENTAGE POINTS. THIS MEANS STATES WILL EITHER HAVE TO INCREASE THE AMOUNT OF MONEY THEY PUT INTO THE MEDICAID PROGRAM OR CUT BACK ON CURRENT COVERAGE.

I MIGHT NOTE IN PASSING THAT, UNDER THIS PROPOSAL, THE MORE ADEQUATE A STATE'S MEDICAID PROGRAM THE MORE SERIOUS THE LOSS OF FEDERAL FUNDS. IS THIS WHAT THE ADMINISTRATION MEANS BY "NEW FEDERALISM"?

OF THE \$600 MILLION THAT THE ADMINISTRATION ESTIMATES WILL BE SAVED BY THIS THREE PERCENTAGE POINT REDUCTION IN FY 1983, MY OWN STATE OF CALIFORNIA STANDS TO LOSE NEARLY 67 MILLION DOLLARS. IN ADDITION, LAST YEAR'S RECONCILIATION BILL CALLS FOR A FOUR PERCENT REDUCTION IN FEDERAL PAYMENTS IN FY 1983, WHICH WILL COST CALIFORNIA ANOTHER 90 MILLION DOLLARS. THE STATE'S TOTAL LOSS FROM THESE TWO PROVISIONS ALONE WILL COME TO ABOUT 157 MILLION DOLLARS. NEW YORK WILL LOSE ABOUT \$125 MILLION FROM THE THREE PERCENTAGE POINT REDUCTION, OKLAHOMA \$7 MILLION. I HAVE ATTACHED TO MY STATEMENT A LIST OF ESTIMATED LOSSES FOR THE STATES OF INTEREST TO THE MEMBERS OF THIS COMMITTEE.

LET US BE CLEAR ABOUT WHO THESE "OPTIONAL" GROUPS ARE AND WHAT THESE "OPTIONAL" SERVICES ARE. THE "OPTIONAL" ELIGIBILITY GROUPS ARE NOT JUST THE MEDICALLY NEEDY, BUT ALSO INCLUDE ALL ELDERLY AND DISABLED PERSONS IN NURSING HOMES WITH INCOME IN EXCESS OF \$25 A MONTH. MOST PEOPLE BELIEVE THAT MEDICARE WILL TAKE CARE OF THEM WHEN THEY BECOME OLD AND FRAIL AND NEED NURSING HOME CARE. THAT'S NOT TRUE. ONLY AFTER THEY HAVE EXHAUSTED ALL OF THEIR RESOURCES WOULD THEY BE ELIGIBLE FOR MEDICAID -- THE HEALTH CARE PROGRAM FOR THE POOR, AND THEY WOULD BE CONSIDERED A "MANDATORY" ELIGIBLE GROUP ONLY IF THEY HAVE LESS THAN \$25 PER MONTH IN INCOME FROM ALL SOURCES, INCLUDING HELP FROM THEIR CHILDREN. THESE ARE THE FOLKS WHO REAGAN DEFINES AS "OPTIONAL" FOR THE PURPOSE OF CUTTING FEDERAL FUNDS FOR MEDICAID. THINK OF THAT -- STATES WOULD HAVE THEIR FEDERAL SUPPORT SLASHED FOR THE LARGE MAJORITY OF MEDICAID AGED AND DISABLED PERSONS IN NURSING HOMES.

THE "OPTIONAL" SERVICES INCLUDE NONSKILLED NURSING HOME CARE, PRESCRIPTION DRUGS, DENTAL CARE, EYEGLASSES, AND HEARING AIDS. THE THREE PERCENTAGE POINT CUT IN FEDERAL MATCHING PAYMENTS WILL FORCE STATES EITHER TO FIND ADDITIONAL FUNDS OF THEIR OWN TO MAKE UP THE SHORTFALL OR TO ELIMINATE COVERAGE FOR THESE SERVICES OR PEOPLE. AND REMEMBER, WE HAVE ALREADY PASSED A FOUR PERCENT PRO RATA CUT IN FEDERAL MATCHING PAYMENTS WHICH WILL GO INTO EFFECT IN FY 1983. SO THE STATES WILL HAVE TO MAKE UP BOTH REDUCTIONS.

COST-SHIFTING IS NOT LIMITED TO THE ADMINISTRATION'S MEDICAID

PROPOSALS. CONSIDER THE PRESIDENT'S PROPOSAL TO REDUCE MEDICARE HOSPITAL REIMBURSEMENT BY 2%, A PROPOSAL WAYS AND MEANS WILL HAVE TO DEAL WITH. THIS WILL "SAVE" THE FEDERAL GOVERNMENT OVER \$650 MILLION. IT WILL APPLY TO EFFICIENT AND INEFFICIENT HOSPITALS ALIKE. IT WILL PENALIZE THOSE HOSPITALS THAT SERVE DISPROPORTIONATELY HIGH NUMBERS OF ELDERLY AND DISABLED MEDICARE PATIENTS. NEVER MIND THAT WE SHOULD BE ENCOURAGING EFFICIENCY AND DISCOURAGING INEFFICIENCY. NEVER MIND THAT WE SHOULD BE ENCOURAGING HOSPITALS TO TREAT OUR MEDICARE PATIENTS, NOT CREATING FINANCIAL DISINCENTIVES FOR THEM TO DO SO. THE ONLY THING THE ADMINISTRATION SEEMS TO CARE ABOUT IS SHIFTING THE COST SOMEWHERE ELSE.

WHEN A HOSPITAL IS TOLD THAT IT WILL RECEIVE 98% OF ITS MEDICARE COSTS AND NOT 100% -- WHICH BY THE WAY NEVER EQUALLED PAYMENT OF COSTS IN FULL -- THE PRIVATE PAY PATIENTS WILL PICK UP THE LOSS. IF THE HOSPITAL IS A PUBLIC GENERAL HOSPITAL IT CANNOT SHIFT THE MEDICARE REDUCTION ONTO ITS PRIVATELY INSURED PATIENTS, SINCE IT HAS SO FEW. IT CANNOT SHIFT THE MEDICARE REDUCTIONS ONTO MEDICAID, SINCE MANY STATES ARE ALREADY REDUCING MEDICAID REIMBURSEMENT. AND IT USUALLY CANNOT SHIFT THE MEDICARE REDUCTIONS ONTO THE CITY OR COUNTY THAT OPERATES IT, BECAUSE MOST LOCAL TAX BASES ARE ALREADY STRAINED. INCREASING CHARGES TO ITS INDIGENT PATIENTS MAY DISCOURAGE THEM FROM USING CARE, BUT IT WILL NOT RAISE MUCH REVENUE. SO THE FACILITY WILL HAVE LITTLE CHOICE BUT TO REDUCE THE AMOUNT AND QUALITY OF SERVICES IT DELIVERS. THE ULTIMATE LOSER IS THE PATIENT.

LET ME BE CLEAR ABOUT MY OPPOSITION TO THE PROPOSED BUDGET CUTS IN

HEALTH PROGRAMS. I DO NOT OPPOSE FUNDAMENTAL REFORMS IN THE WAY WE FINANCE AND DELIVER HEALTH CARE. HOWEVER, I STRONGLY OPPOSE PRECIPITOUS, LARGE COST SHIFTS BY THE FEDERAL GOVERNMENT ONTO ANYONE ELSE UNLUCKY ENOUGH TO FIND THEMSELVES IN THE WAY. THE PRESIDENT'S FY 1983 BUDGET CONTAINS NO PROPOSALS THAT WOULD DEAL EFFECTIVELY WITH THE EXCESSIVE RATE OF INFLATION IN THE HEALTH CARE SECTOR. INSTEAD, IT ASKS US TO SLICE AND DICE OUR PROGRAMS AND IGNORE THE INFLATIONARY SPIRAL IN HOSPITAL AND OTHER HEALTH CARE COSTS.

AS YOU KNOW, I AM FAMILIAR WITH THE DIFFICULTIES IN DESIGNING AND IMPLEMENTING LONG-TERM REFORMS IN THE HEALTH CARE SYSTEM. HAVING ON SEVERAL OCCASIONS ATTEMPTED TO LEGISLATE SUCH REFORMS, AND HAVING ALSO PARTICIPATED IN THE BUDGET RECONCILIATION EXERCISE FOR THE PAST TWO YEARS, I AM SURE ABOUT ONE THING. THE RECONCILIATION PROCESS IS INCOMPATIBLE WITH THE LEGISLATION OF LONG-TERM, FUNDAMENTAL REFORMS. THE PROCESS IS TOO HASTY, TOO CLOSED, AND TOO INSISTENT ON IMMEDIATE, QUANTIFIABLE SAVINGS TO PERMIT THE DEVELOPMENT OF SOUND LONG-TERM CHANGES.

BY WAY OF EXAMPLE, IT IS CLEAR TO MOST OF US IN THE HEALTH AREA THAT REFORM OF THE MEDICARE HOSPITAL REIMBURSEMENT SYSTEM IS LONG OVERDUE. MY OWN VIEW IS THAT WE NEED TO MOVE TOWARD A PROSPECTIVE REIMBURSEMENT SYSTEM IN MEDICARE AND WE NEED TO ESTABLISH FEDERAL INCENTIVES FOR STATES TO ESTABLISH ACROSS THE BOARD RATE-SETTING PROGRAMS. WHILE SAVINGS OVER THE LONG RUN WOULD BE SUBSTANTIAL, IT IS UNLIKELY THAT WE WOULD SEE ANY BY OCTOBER 1, WHEN THE FY 1983 BUDGET BEGINS, SINCE IT WOULD TAKE SOME TIME TO DESIGN AND PUT THESE NEW

METHODOLOGIES IN PLACE.

WE TOOK THE SHORT-RUN PATH IN 1980, AND AGAIN IN 1981. WE CANNOT AFFORD TO MAKE THE SAME MISTAKE AGAIN IN 1982. NEITHER THE STATES, THE LOCALITIES, NOR THE PROVIDERS WILL BE ABLE TO ADAPT TO MASSIVE, IMMEDIATE SHORTFALLS IN FEDERAL FUNDS. THEY WILL SIMPLY REACT, BY CUTTING SERVICES AND ELIGIBILITY. THE POOR, THE ELDERLY, AND THE DISABLED WILL SUFFER.

THERE ARE MORE RESPONSIBLE ALTERNATIVES FOR DEVELOPING A FY 1983 BUDGET. LAST YEAR THIS COMMITTEE DEVELOPED A MORE RESPONSIBLE ALTERNATIVE TO THE PRESIDENT'S BUDGET, AND I WOULD HOPE YOU DO SO AGAIN THIS YEAR. IN DOING SO, I WOULD URGE YOU TO REPEAL SOME OF THE TAX CUTS MISTAKENLY ENACTED LAST YEAR AND TO CUT THE WASTE IN THE AREA OF NATIONAL DEFENSE.

IN THE HEALTH AREA, THE BUDGET PROCESS SHOULD GIVE THE COMMITTEES THE FLEXIBILITY TO RAISE REVENUES AS AN ALTERNATIVE TO REDUCING PROGRAM OUTLAYS. WE SIMPLY CANNOT BE LEFT WITH THE SOLE ALTERNATIVE OF SLASHING PROGRAMS FOR THE POOR AND THE AGED.

IN FRAMING THE BUDGET RESOLUTION, THE COMMITTEE SHOULD ALSO LOOK VERY CAREFULLY AT THE ASSUMPTIONS UNDERLYING THE ADMINISTRATION'S BUDGET ESTIMATES. FOR EXAMPLE, AT ONE POINT, THE ADMINISTRATION CLAIMS SAVINGS OF \$99 MILLION BY REPEALING UTILIZATION REVIEW; AT ANOTHER, SAVINGS OF \$330 MILLION BY REINSTITUTING IT. EVEN MR. STOCKMAN SHOULD BE EMBARRASSED ABOUT SUCH ACCOUNTING LEGERDEMAIN.

IN CLOSING, I ALSO WANT TO CAUTION THE COMMITTEE AGAINST EMBRACING ALTERNATIVE PROPOSALS TO FREEZE DOMESTIC PROGRAM SPENDING. I UNDERSTAND THAT SENATOR DOMENICI IS PROPOSING, AS PART OF A COMPREHENSIVE ALTERNATIVE TO THE PRESIDENT'S BUDGET, TO LIMIT INCREASES IN THE MEDICARE AND MEDICAID PROGRAMS TO THE COST-OF-LIVING-INDEX. THIS SOUNDS REASONABLE, BUT THE ONLY WAY TO ACCOMPLISH THIS IN THE SHORT RUN IS TO END BOTH ENTITLEMENT PROGRAMS BY CAPPING THEM. YOU MAY RECALL THAT THE ADMINISTRATION ATTEMPTED TO CAP THE MEDICAID PROGRAM LAST YEAR AND CONGRESS WISELY REJECTED THE PROPOSAL. I WOULD EXPECT THE SAME RESULT SHOULD A PROPOSAL SIMILAR TO SENATOR DOMENICI'S REACH THE HOUSE FLOOR THIS YEAR.

I WOULD BE HAPPY TO ANSWER ANY QUESTIONS YOU MIGHT HAVE.